



## MEMORANDUM - OFFICE OF RECOVERY & REINVESTMENT

**To:** JoAnna Richard, Deputy Secretary – Wisconsin Dept. of Workforce Development

**From:** Chris Patton, Director *CP*

**Re:** Financial Review – Milwaukee Area Workforce Investment Board, Inc.

**Date:** March 29, 2010

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The Wisconsin Office of Recovery and Reinvestment (ORR) contracted with Jefferson Wells to conduct on-site reviews of non-profit entities that received Recovery Act funding from more than one federal/state program. In summary, the review was primarily financial in scope and encompassed risks and mitigating control activities related to the Entity Level Control Environment, Financial Reporting, Purchasing and Disbursements, Banking/Treasury, HR/Payroll, and Fixed Assets processes, and comprised of the following activities:

- Review of policies, procedures, and documented controls.
- Review of external auditor reports and evidence for remediation of findings.
- Inquiry of management to acquire a general understanding of entity relationships, transaction flows, and monitoring controls.
- Observation of transaction flows and control activities via process walkthroughs.
- Review of system access reports for adequate segregation of duties.
- Review for evidence of operational effectiveness of key controls, including account reconciliations, transaction authorizations, and appropriate disposition of assets.
- Review of transaction detail on a sample basis for evidence that funds have been appropriately accounted for and/or disbursed.

The reviewers met with both management and financial staff to review the activities and controls associated with Recovery Act grants or the administrative financial controls in place prior to receipt of the grant funding. The common grants that have been issued to Milwaukee Area Workforce Investment Board, Inc., by various State of Wisconsin agencies include the following:

PROGRAM	STATE/ FEDERAL AGENCY	AWARD AMOUNT
WIA Adult, Dislocated, and Youth Workers	DWD/DOL	\$8,083,957

Additionally, some entities have been awarded funds directly from a federal agency and the controls and procedures associated with these awards have also been reviewed at a high level.

The on-site review of Milwaukee Area Workforce Investment Board, Inc., was performed from March 2nd through March 4th, 2010. The review was primarily financial in scope, and focused on the agency's capabilities to mitigate the risk of fraud, waste, and abuse through internal controls including but not limited to management oversight, segregation of duties, and restricted access.

As stated in more detail in the attachment from Jefferson Wells, the review focused on policies and procedures, past audit reports, management and board engagement, transaction flows, system access, operational effectiveness of key controls and transaction details.

Upon completion of the review and examination of the supporting documentation, no instances of fraud, waste, and abuse were noted. However, the following observations were noted from the reviewers along with recommendations suggested by ORR that may assist in mitigating any risk associated with the observations:

#### ***Employee Background Checks:***

**Observation:** Though a formal policy is documented for performing new hire and volunteer background checks, the agency does not require updated background checks after initial hire date. Periodic background checks, in particular, for employees transferring to positions of management or cash handling functions or for those employees involved in programs with potential liability (e.g. interaction with children, access to recipient homes, etc.) are important to reduce risk to the agency.

**Recommendation:** Best practices would include performing background checks on employees before transitioning to positions that have senior management responsibilities, cash handling duties, or program requirements.

#### ***Conflict of Interest Policy:***

**Observation:** The agency has a Conflict of Interest policy that has been communicated to board members and employees. While all new employees and new Board members must sign and disclose potential conflicts, the agency does not require its senior management, agency personnel and its Board members to review and sign the Conflict of Interest Policy annually.

**Recommendation:** Best practices would suggest amending the Conflict of Interest Policy to require Board Members and existing employees to annually acknowledge the code of conduct and certify compliance and disclosure of potential conflicts to the agency. Periodic communication of the policy and disclosure of potential conflicts will reduce the risk that potential conflicts are not identified and reported.

### ***Segregation of Duties:***

**Observation:** Independent review of accounting transactions is critical to mitigate the risk of processing inaccurate or fraudulent transactions. The CFO, who is responsible for reviewing all journal entries, payables, payroll, and financials, has system administrator access to perform all accounting functions. Although the CFO may not prepare accounting transactions as part of their role, the CFO's independent review has been compromised since the CFO also has system access to prepare or edit the transactions that are reviewed. This could result in inaccurate or invalid transactions that would be left undetected. Per discussion during fieldwork, the agency will remove administrator rights and ability to perform user functions from the CFO.

**Recommendation:** The board of directors and management should consider establishing an internal control policy that addresses system access related to executing or reviewing certain financial transactions. In most cases it is optimal that a minimum number of individuals have the ability to perform certain tasks, while management, supervisors or other individuals that are not involved in the process have the ability to review the transactions that were performed. Best practices would include creating documented, independent reviews, timely reconciliations, and sign offs by preparers and reviewers.

### ***Payroll System Access Report:***

**Observation:** The agency does not print out a report summarizing changes to the payroll system and compare the changes to supporting documentation. Although management performs financial reporting reviews that may detect material improprieties, there is still an opportunity for unauthorized payroll changes to go undetected. Per discussion during fieldwork, the agency is going to begin printing a report showing payroll changes and have the CFO compare the report to the supporting documentation.

**Recommendation:** Best practices would include requiring basic management oversight and review processes to ensure accurate financial reporting and oversight. This review process may include generating reports that identifies system changes that can viewed by management.

As a state agency with the responsibility for ensuring that sub-recipients comply with complex requirements associated with the granting of Recovery Act funds, this information is being forwarded to your attention so that you attend to the issues that may impact your specific program. ORR expects that each agency will take the appropriate steps to mitigate fraud, waste and abuse as it relates to Recovery Act funding. For your convenience, I have enclosed a copy of the Field Review Program Worksheet, which details the scope and results of the review. A copy of this memorandum is also being provided as a courtesy to Milwaukee Area Workforce Investment Board, Inc.

As a result of this review, if you require sub-recipients to demonstrate any change of policy or procedure, please forward a copy of any correspondence to the attention of the Recovery Office.

If you have any questions, you can contact Dan Subach at (608) 266-7602 or Art Stauffacher at (608) 267-3672. Thank you for your cooperation in assisting us in assuring the public of the accountability and transparency of Recovery Act funds.

cc: Donald Sykes, Milwaukee Area Workforce Investment Board, Inc.